

John Y. Ferry, Chairman  
Kevin S. Carter, Director

MINUTES OF THE MEETING OF THE  
SCHOOL & INSTITUTIONAL TRUST LANDS ADMINISTRATION  
BOARD OF TRUSTEES

DATE: SEPTEMBER 11, 2008

PLACE: SALT LAKE CITY, UTAH

ATTENDING: BOARD

John Y. Ferry  
John Scales  
James Lee  
Mike Brown  
Dan Lofgren  
Steve Ostler  
Gayle McKeachnie

STAFF

Kevin S. Carter  
John Andrews  
Kim Christy  
LaVonne Garrison  
Tom Faddies  
Lisa Schneider  
Dave Hebertson  
Doug Buchi  
Kay Burton  
Ron Carlson  
Rodger Mitchell  
Tom Mitchell  
Elise Erler  
Kurt Higgins  
Alexa Wilson  
Bryan Torgerson  
Stephanie Barber-Renteria  
Lynda Belnap

OTHERS IN ATTENDANCE

Karen Rupp, Utah State Office of Education  
Margaret Bird, Utah State Office of Education  
Steve Clyde, Clyde Snow  
Dave Detton, Magnum Holdings  
Bob Hanes, Magnum Holdings  
Craig Broussard, Magnum Holdings  
Paula Plant, Utah State Office of Education  
Tim Donaldson, Utah State Office of Education  
Natalie Gordon, Utah PTA  
Todd Stonely, Division of Water Resources  
Becky Bruso, Governor's Office of Planning & Budget  
Paul Foy, The Associated Press

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Chairman Ferry welcomed Board members, Staff, and guests to the Board meeting. He welcomed Becky Bruso, who is our new budget analyst from the Governor's Office of Planning and Budget.

1. Welcome and Swearing In of New Board Member

Chairman Ferry welcomed Steven B. Ostler, who is our new Board member replacing Michael Morris. Chairman Ferry administered the oath of office to Mr. Ostler. Ms. Rupp welcomed him on behalf of the Nominating Committee and beneficiaries.

2. Approval of Minutes

The Board approved the Board minutes of August 19, 2008.

Lee / McKeachnie. Unanimously approved.

"I move we approve the Board minutes of August 19, 2008."

Roll Call:

Mr. Scales - - yes

Mr. Lee - - yes

Mr. Brown - - yes

Mr. Lofgren - - yes

Mr. Ostler - - yes

Mr. McKeachnie - - yes

Mr. Ferry - - yes

3. Confirmation of Upcoming Meetings

The Board, without motion, confirmed the following dates of upcoming meetings:

October 22, 23 - - Salt Lake City - - Retreat from 9:00 a.m. - 5:00 p.m.

November 18 - - Salt Lake City

December - - No Meeting

4. Director's Report

a. Associate Director's Report

I. Report on Legal Issues

Mr. Andrews introduced Stephanie Barber-Renteria, who is a new attorney we have hired to replace Erin Arnold.

Mr. Andrews also noted that the land exchange bill is scheduled to be marked up in the Senate Energy Committee today.

Mr. Andrews updated the Board on the following litigation items:

- \* Wilderness Re-inventory Case (US Court of Appeals 10<sup>th</sup> Circuit)
- \* NPCA vs. SITLA ( Utah Supreme Court) - - Scheduled for October 7. Mr. Andrews will get information to Board members who would like to attend
- \* SITLA vs. Mathis ( Utah Supreme Court)
- \* Cook Associates vs. SITLA (4<sup>th</sup> District Court)
- \* Provo City vs. SITLA (4<sup>th</sup> District Court)
- \* IDR Investment Plan (U. S. Bankruptcy Court D. Utah)

Third-Party Litigation:

- \* Morra, etal vs. Grand County (Utah Court of Appeals)
- \* Wolf Mountain vs. American Skiing Company

The Board went into closed session for the discussion of litigation and potential litigation.

Lee / Scales. Unanimously approved.

“I move we go into closed session for the purpose of discussing litigation and potential litigation.”

4. Director's Report (cont'd)

a. Associate Director's Report (cont'd)

I. Report on Legal Issues (cont'd)

Roll Call:

Mr. Scales - - yes

Mr. Lee - - yes

Mr. Brown - - yes

Mr. Lofgren - - yes

Mr. Ostler - - yes

Mr. McKeachnie - - yes

Mr. Ferry - - yes

The Board went into closed session at 9:41 a.m. Those in attendance were Board members, Director Carter, John Andrews, Tom Mitchell, Stephanie Barber-Renteria, Paula Plant, and Margaret Bird.

The Board returned to open session at 9:56 a.m.

II. Concurrence in Proposed Rulemaking - - R850-140-350

This item was postponed until November.

b. Oil and Gas Group Report

I. Other Business Arrangement - Magnum Holdings

Mr. Andrews briefed the Board on the proposed Other Business Arrangement (OBA) with Magnum Holdings, LLC. The transaction summary is as follows:

- \* Lease of +/- 2800 acres of SITLA fee lands and 1500 acres of severed minerals for natural gas and refined product storage. Other unconventional uses possible.
- \* Lessee Magnum Holdings, LLC, is comprised of local principals plus Haddington Equity Partners III, LP (HEP). HEP is funding partner and has majority control.
- \* Haddington parent is mid-size private equity fund focusing on mid-stream energy investments. \$330 million under management.

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4. Director's Report (cont'd)

b. Oil and Gas Group Report (cont'd)

I. Other Business Arrangement - Magnum Holdings (cont'd)

Deal terms are summarized as follows:

- \* Ten-year term with four 10-year options. Must be in commercial operations in year 10; option to extend commercial operations deadline for five years at \$150K/year.
- \* Surface fee of \$25K/year for years one through five; \$50K thereafter.
- \* Gas-storage fee two cents/mcf round trip (based on BLM rates)
- \* Refined product storage 2.5 percent of gross revenue.
- \* Non-conventional fees (CAES, carbon sequestration, etc.) to be negotiated.
- \* Requirement for SITLA concurrence in plan of operations allocating individual projects among Trust and fee lands.

The Board discussed this item at some length. Mr. Lee had some questions on the fees, adjustments to fees, etc. The surface fee will be adjusted by the CPI. The gas storage fee will be adjusted similar to our other gas leases on a market basis every 10 years. Mr. Lee asked to see the agreement before it is signed.

Mr. Scales asked about change in ownership if Haddington were to sell its interest. Mr. Andrews stated this is not in the agreement now. Mr. Lofgren asked if we need to test the market to some extent since market issues and interests have changed. Mr. Andrews stated that the driver on this is natural gas storage rather than refined production. We have land in the middle of a fee land base on this project. It is good for us to participate.

Mr. David Detton, a principal of Magnum Holdings, responded to some of the Board's questions. He introduced other partners in the group also. This group has completed projects in other states and is working on a project in Europe. He discussed the financing of this project. They have water attorneys and FERC attorneys working with them. If the project is not successful, all the preliminary work they have done on the project will be made available to the State. Their every intention is to stay involved with the project for the long term.

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4. Director's Report (cont'd)

b. Oil and Gas Group Report (cont'd)

I. Other Business Arrangement - Magnum Holdings (cont'd)

Mr. Lee stated he wants the ability to approve the assignment of the project if the parties want to sell it. Mr. Denton stated that the people who finance this don't like a government agency to have any veto power. If that is what happens, the project would be built on federal and private lands. They are happy to work with SITLA in siting the facility and getting an equitable rate.

Brown / Scales. Motion approved.

"I move we approve this OBA."

Roll Call:

Mr. Scales - - yes

Mr. Lee - - no

Mr. Brown - - yes

Mr. Lofgren - - no

Mr. Ostler - - yes

Mr. McKeachnie - - yes

Mr. Ferry - - yes

c. Director's Update on Issues

Director Carter noted that the Senate Natural Resource Committee did pass out our exchange bill this morning. It will now go to the floor. There are several outstanding issues, one of which deal with scoring, which will cost the Federal government some money. We think the reason it will "score" is because of two wells in the Book Cliffs that we will obtain. One of the options to deal with this is to let the Federal government reserve the income for five years. We are encouraged that a bill is still possible this session.

4. Director's Report (cont'd)

d. Mineral Group Report

I. Oil Shale Update

Mr. Faddies briefed the Board on a trip that he, the Director, Mr. McKeachnie, and the Lt. Governor had taken to the Athabasca tar sands field in Canada.

Tom Faddies gave the Board an in-depth briefing on what is happening with oil shale in Utah. He noted that the blocks of oil shale are not to be leased without approval of the Board. The scattered sections can be leased by Staff. This was for information to the Board.

e. Development Group Report

I. Update on Amangiri Development

Mr. Buchi updated the Board on the progress of the Amangiri development in Kane County.

Project Area: Approximately 1900 acres

SITLA Land: Approximately 1359 acres

Purchase price: \$2,747,000 (\$2,594/acre)

Project overview:

- \* Hotel
  - \* 34 rooms - - approximately 900 sf each
  - \* 12,000 square foot spa
  - \* Restaurant, bar, and lounge
- \* Villas
  - \* 31 luxury villas (6,000 sf each)
  - \* 28 to be sold to "discriminating" buyers priced in the \$4.5 million to \$6.5 million range.
- \* Construction commenced in the Fall of 2005 with a projected completion date of mid-2007.
- \* Hotel completion slipped from mid-2007 to mid-2008 to early 2009 and is now June 2009 (Okland Construction is now on its fourth project superintendent)
- \* Villas construction has not commenced. Changed architects, and project superintendent has received no word on when new plans will be completed so that construction can begin.

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5. Chairman's Report

a. Beneficiary Report

Ms. Bird reported to the Board on some follow-up from last month's meeting and the contacts they have made with the Governor's Public Lands Policy Coordination Office and comments made to RMP's. Mr. Harja, of that office, has had discussions with BLM regarding the State's comments and the Office of Education's comments. The State Office of Education will continue to make comments on behalf of the beneficiaries.

Mr. Lee noted that he and Ms. Bird met with the Superintendent to discuss some Trust issues. It was a good discussion.

b. Consideration/Approval of FY 2010 Budget

Director Carter reviewed the budgeting process with the Board members. He reviewed the FY 2010 budget with the Board. Based on the Governor's guidelines and our perceived needs, we have put together a proposed budget summarized as follows:

\* Budget will be the same as last year with changes as requested below:

- \* One-time requests
  - \* \$46,400 for ROW Project
  - \* \$200,000 for drilling project on coal tract
- \* Ongoing request: \$50,00 for Mine Safety Projects
- \* Capital Request:
  - \* Increase base from \$8.3 million to \$11.3 million
- \* Total Operating Budget: \$10,190,100
- \* Total Capital Budget: \$11,300,000

The Board approved the budget as requested.

Lee / Scales. Motion approved.

"I move we approve the budget as requested, including the capital expenditure of \$11.3 million."

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5. Chairman's Report (cont'd)

b. Consideration/Approval of FY 2010 Budget (cont'd)

Roll Call:

Mr. Scales - - yes	Mr. Lee - - yes
Mr. Brown - - yes	Mr. Lofgren - - absent at vote
Mr. Ostler - - yes	Mr. McKeachnie - - absent at vote
Mr. Ferry - - yes	

c. Director's Performance and Evaluation

The Board went into closed session for this item.

Scales / Brown. Motion approved.

"I move we go into closed session for the discussion of the character and competence of individuals."

Roll Call:

Mr. Scales - - yes	Mr. Lee - - yes
Mr. Brown - - yes	Mr. Lofgren - - yes
Mr. Ostler - - yes	Mr. McKeachnie - - absent at vote
Mr. Ferry - - yes	

The Board went into closed session at 12:25 p.m. Those in attendance were Board members, with the exception of Mr. McKeachnie, and Director Carter. The Board returned to open session at 1:18 p.m.

6. Consent Calendar

a. Other Business Arrangement - - Pride Ventures - - ML 48002

There were no comments or concerns regarding this item, so it is approved.

Upon motion by Mr. Lee, the meeting adjourned at: 1:46 p.m.

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